

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 OES-06 IO-13 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 AGRE-00 FEA-01 /133 W

-----121147Z 034847 /14

R 121017Z APR 77

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 259

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION USUN

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 THE HAGUE 1868

MANILA FOR USEP ADB

E.O. 11652: N/A

TAGS: EAID, ID, NL

SUBJ: PRESS COMMUNIQUE - 20TH INTER-GOVERNMENTAL GROUP ON  
INDONESIA

1. THE INTER-GOVERNMENTAL GROUP ON INDONESIA CONVENED IN

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AMSTERDAM ON FIVE AND SIX APRIL 1977 TO CONSIDER THE RECENT  
PERFORMANCE OF THE INDONESIAN ECONOMY, TO EXAMINE ITS  
DEVELOPMENT PROSPECTS AND TO DISCUSS INDONESIA'S EXTERNAL  
FINANCING REQUIREMENTS FOR THE FISCAL YEAR 1977/78.

2. THIS TWENTIETH SESSION OF THE GROUP WAS ATTENDED  
BY DELEGATIONS OF AUSTRALIA, AUSTRIA, BELGIUM, CANADA,

FRANCE, THE FEDERAL REPUBLIC OF GERMANY, INDONESIA, ITALY, JAPAN, THE NETHERLANDS, NEW ZEALAND, SWITZERLAND, THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA. REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND, THE WORLD BANK, THE ASIAN DEVELOPMENT BANK AND THE UNITED NATIONS DEVELOPMENT PROGRAMME PARTICIPATED IN THE DISCUSSIONS. THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, THE EUROPEAN ECONOMIC COMMUNITY, THE UNITED NATIONS CHILDREN'S FUND AND DENMARK WERE REPRESENTED BY OBSERVERS. IT WAS DECIDED THAT AT ITS REQUEST SPAIN WOULD BE ADMITTED TO THE NEXT MEETING AS AN OBSERVER.

3. REPORTING ON THE MAJOR DEVELOPMENTS IN THE INDONESIAN ECONOMY THE DELEGATION OF THE REPUBLIC OF INDONESIA STATED THAT THE INDONESIAN ECONOMY REACTED FAVORABLY TO THE STIMULI OF THE IMPROVING WORLD ECONOMY AND THE SHARP REDUCTION OF THE FINANCIAL OBLIGATIONS OF THE STATE OIL COMPANY, PERTAMINA. AS A CONSEQUENCE, THERE HAD BEEN A MARKED IMPROVEMENT IN THE ECONOMY OF INDONESIA OVER THE PAST YEAR. THE MOST VISIBLE IMPROVEMENT TOOK PLACE IN THE COUNTRY'S BALANCE OF PAYMENTS, WHICH SHOWED SUBSTANTIAL INCREASE IN THE FOREIGN EXCHANGE RESERVES DURING 1976/77. AS FAR AS THE PERTAMINA CRISIS WAS CONCERNED, IT COULD BE SAID THAT ITS SHORT-TERM CONSEQUENCES HAD BEEN VIRTUALLY OVERCOME. MOST OF PETTAMINA'S SHORT TERM DEBT HAD BEEN REPAID.

4. THE DOMESTIC ECONOMY HAD ALSO WITNESSED IMPROVEMENT. THE RATE OF INFLATION HAD BEEN SUBSTANTIALY REDUCED  
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AND THE PRICE OF RICE HAD REMAINED STABLE. THE GOVERNMENT INTENDED TO CONTINUE TO PURSUE POLICIES WHICH WOULD HELP TO DECREASE THE RATE OF INFLATION FURTHER.

5. FOREIGN BORROWING. THE RECENT WORLD RECESSION AND PERTAMINA'S FINANCIAL PROBLEMS HAD NEVERTHELESS LONGER TERM CONSEQUENCES FOR THE GOVERNMENTS DEVELOPMENT EFFORTS. THE LARGE FOREIGN BORROWING WHICH BECAME NECESSARY TO MEET PERTAMINA'S FINANCIAL OBLIGATION SHAD INCREASED THE FUTURE DEBT SERVICE BURDEN AND SHARPLY REDUCED THE NET TRANSFER OF FOREIGN RESOURCES IN THE LATTER YEARS OF THE DECADE. DESPITE THE RAPID INCREASE IN OIL AND OTHER REVENUES, INDONESIA'S RESOURCES REMAIN SMALL IN RELATION TO THE NEED OF SUSTAINED ECONOMIC GROWTH, TAKING INTO ACCOUNT THE SIZE OF THE COUNTRY AND THE LOW LEVEL OF INCOME. HOWEVER, THE GOVERNMENT IS COMMITTED TO THE GOALS OF THE SECOND DEVELOPMENT PLAN WHICH INCLUDE EMPHASIS ON THE EXPANISON OF RICE PRODUCTION, ON EMPLOYMENT CREATION AND ON INCREASING THE INCOMES OF THER VERY POOR.

6. THE REPRESENTATIVES OF THE WORLD BANK AND IMF GENERALLY AGREED WITH THE ANALYSIS GIVEN BY THE INDONESIAN DELEGATION. THEY DREW ATTENTION TO THE SUCCESS OF THE GOVERNMENT OF INDONESIA IN REALIZING BUDGETARY SAVINGS WELL IN EXCESS OF THE AMOUNTS BUDGETED, THE RESTRAINT ON CREDIT TO THE PUBLIC SECTOR AND TO THE FACT THAT FOREIGN BORROWING HAD BEEN KEPT WITHIN PRUDENT LIMITS. THEY POINTED OUT THAT SINCE SHORT TERM FINANCIAL PROBLEMS HAD BEEN LARGELY OVERCOME, THE GOVERNMENT OF INDONESIA AS WELL AS OTHER MEMBERS OF THE GROUP COULD NOW DEVOTE MORE OF THEIR ENERGIES TO THE LONG TERM ISSUES AND PROBLEMS OF INDONESIA'S ECONOMIC DEVELOPMENT. THEY NOTED THAT THERE WERE PRELIMINARY INDICATIONS THAT THE FAMILY PLANNING PROGRAM HAD LED TO A MARKED DECLINE IN THE BIRTH RATE IN

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SS-15 STR-04 CEA-01 OES-06 DODE-00 PM-04 H-02  
L-03 PA-02 PRS-01 AGRE-00 FEA-01 /133 W  
-----121146Z 034956 /12

R 121017Z APR 77  
FM AMEMBASSY THE HAGUE  
TO SECSTATE WASHDC 260  
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MANILA FOR USEP ADB

JAVA AND BALI BETWEEN 1971 AND 1976. THE EFFORTS OF THE GOVERNMENT IN IMPROVING THE INFRASTRUCTURE AND PRO-  
DUCTIVE FACILITIES HAVE STARTED BEARING FRUIT, AS ILLUS-  
TRATED BY THE SUBSTANTIAL INCREASES IN THE CAPACITY OF  
FERTILIZER PRODUCTION. THEY RECOGNIZED THAT DESPITE THE  
RELATIVELY LOW PER CAPITA INCOME INDONESIA HAD SUCCEEDED  
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IN SAVING AND INVESTING MOST OF ITS OIL INCOME AND HAD  
ACHIEVED HIGH SAVINGS AND INVESTMENTS RATES. YET THE  
NEED FOR LARGE INVESTMENTS IN SOCIAL AND DIRECTLY PRO-  
DUCTIVE SECTORS IN THE COMING YEARS IS PRESSING. AS THE  
RELATIVE WEIGHT OF PETROLEUM SECTOR DECLINES THE INDO-  
NESIAN ECONOMY WOULD NEED TO DRAW INCREASINGLY ON THE  
NON-OIL SECTORS TO GENERATE THE REQUIRED INVESTABLE  
RESOURCES. A STRENGTHENED DOMESTIC RESOURCE MOBILIZATION  
EFFORT WAS ALSO NECESSARY FOR BRINGING DOWN THE RATE OF  
INFLATION.

7. POOREST SECTIONS. THE GROUP ENDORSED THE ANALYSIS OF  
THE ECONOMIC DEVELOPMENT GIVEN BY THE INDONESIAN DELEGA-  
TION AND THE REPRESENTATIVES OF THE WORLD BANK AND IMF,  
AND COMMENDED THE OVERALL POLICIES OF THE GOVERNMENT OF  
INDONESIA. SOME CONCERN WAS EXPRESSED ON THE OBSERVED  
RECENT DECLINE IN FOREIGN INVESTMENT. THE ORIENTATION  
OF THE PUBLIC SECTOR INVESTMENT PROGRAM WAS DISCUSSED AND  
IN THIS RESPECT A WISH WAS EXPRESSED TO ASSESS THE IMPACT  
OF THE INVESTMENT PROGRAM ON THE POOREST SECTIONS OF THE  
INDONESIAN POPULATION. THE MEETING ENDORSED THE INDO-  
NESIAN GOVERNMENT'S INTENTION TO MAINTAIN OR EVEN INCREASE  
THE PRESENT HIGH RATE OF INVESTMENT IN THE COMING YEARS,  
THROUGH MOBILIZATION OF DOMESTIC RESOURCES AND FOREIGN  
SOURCES OF FINANCE, AND TO SHIFT FURTHER THE ORIENTATION  
TOWARDS ACTIVITIES DESIGNED TO IMPROVE THE LOT OF THE VERY  
POOR. SEVERAL DONORS EXPRESSED THE INTENTION TO INCREASE  
THEIR DIRECT PARTICIPATION IN SUCH PROGRAMS AND IT WAS  
GENERALLY RECOGNIZED THAT THIS MIGHT REQUIRE FINANCING  
OF LOCAL CURRENCY EXPENDITURES.

8. THE GROUP ALSO EXPRESSED CONCERN ON THE RELATIVE  
SLACKENING IN THE INCREASE OF RICE OUTPUT IN THE PAST  
TWO YEARS, WHICH HAD BEEN CAUSED BY PEST INFESTATION AND  
UNFAVORABLE WEATHER CONDITIONS. AS A CONSEQUENCE RICE  
IMPORTS HAD TO BE MAINTAINED AT A LEVEL HIGHER THAN IN  
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1975/76. THE GOVERNMENT REQUESTED THAT DUE CONSIDERATION BE GIVEN TO FOREIGN ASSISTANCE IN THE FORM OF FOOD. IN VIEW OF THE EXPECTED INCREASE IN INDONESIA'S FOREIGN DEBT SERVICE, THE GROUP RECOGNIZED THE NEED FOR CONTINUED RESTRAINT ON COMMERCIAL BORROWING. IT WAS ENCOURAGED TO NOTE THAT THE RESTRAINT ON SUCH BORROWING HAD BEEN EXERCISED IN THE PAST YEAR AND THE GOVERNMENT OF INDONEIS HAD INTRODUCED PROCEDURES WHICH FACILITATED SUCH RESTRAINT IN FUTURE. THE GOVERNMENT NOT ONLY EXAMINED CAREFULLY THE DEGREE OF PRIORITY ACCORDED TO PROJECTS TO BE FINANCED WITH FOREIGN BORROWING, BUT ALSO SCRUTINIZED TH TERMS OF SUCH BORROWING.

9. NEW COMMITMENTS. THE GROUP AGREED THAT FOR 1977/78 A LEVEL OF 2.1 BILLION DOLLARS OF EXTERNAL FINANCING COMMITMENTS SEEMED APPROPRIATE, OF WHICH 1.5 BILLION DOLLARS FROM CONCESSIONAL AND SEMI-CONCESSIONAL SOURCES. INDICATIONS WERE THAT NEW COMMITMENTS FOR 1977/78 WOULD AMOUNT TO THE VIVINITY OF THE TARGET RECOMMENDED BY THE WORLD BANK. IT WAS EXPECTED THAT CONCESSIONAL AND SEMI-CONCESSIONAL LOANS WOULD BE ALSO PROVIDED FROM NON-IGGI SOURCES.

10. THE GROUP, WHILE EXPRESSING THE DESIRABILITY OF ACCELERATING THE IMPLEMENTATION OF PROJECT AID, DISCUSSED HOW TO IMPROVE PROJECT PREPARATION AND IMPLMENTATION. THE DELEGATION OF INDONESIA POINTED OUT THAT THE INDONESIAN GOVERNMENT EXPERIENCED ADMINISTRATIVE DIFFICULTIES BECAUSE OF DIFFERENCES BETWEEN DONORS' COMMITMENT AND PROJECT SELECTION PROCEDURES, WHICH WAS ONE OF THE FACTORS LEADING TO SLOW DISBURSE MENTS. IT WAS AGREED THAT THERE SHOULD BE CONTINUED CO-OPERATION AIMED AT IMPROVING PROCEDURES REGARDING PROJECT COMMITMENT AND IMPLEMENTATION.

THE GROUP DECIDED TO CONVENE AGAIN IN MAY 1978.

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## Message Attributes

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